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# **Regionalism in East and Southeast Asia**

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# **Regionalism in East and Southeast Asia\***

Johannes Dragsbaek Schmidt\*\*

The emergence of exclusive regional blocs is conceived by many scholars and policymakers as a central feature in the contemporary international political economy. Some observers welcome it as a force for strengthening stability and world order at both the regional and the global level. Others view regionalism as a potentially disruptive force. This critique fears regionalization to increase economic friction and the adoption of beggar-my-neighbor policies between blocs. One reason for these conflicting reactions is the various connotations related with the concept and the rise of a blurred understanding of regionalism as a residual category denoting an intermediate space between globalization, the state and the local where regions are merely seen as processes and not necessarily fixed orders. Furthermore the crisis of legitimacy of the global governance system (IMF, WB and WTO) and the fact that more and more processes and problems are transnationalized have contributed to the rise of what some scholars term “new, alternative or informal regionalism”.<sup>1</sup>

However, the purpose here is not to elaborate in detail or distinguish the different concepts and theories of 'regionalism' and 'regionalization'. A debate which, according to some scholars is still at the stage of “theoretical brainstorming”. This is further complicated by the fact that theories of regional integration, mainly derived from contemporary European experience are challenged by the success of informal, mostly open non-governmental networks in connecting East Asian sub-regions to one another. This is in contrast to the kind of intergovernmental arrangements that characterize the EU and NAFTA. Although ASEAN, APEC and other types of governmental initiatives such as a regional alternative to the IMF might be considered as opposing this view, these initiatives as suggested in this paper are primarily to be seen as reactive in the sense of being co-opted and subverted by the hegemony of neo-liberalism.

This paper attempts to provide a tentative perspective on how Southeast Asian newcomers develop strategies and deliberately select state capacities and capabilities to implement efficient economic policies in order to catch-up in the global market-place and thus implicitly only emphasize the regional imperative as a serious option when it is convenient and if it doesn't oppose the neoliberal

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mainstream. Furthermore, it explores the link between national and collective responses to the emerging regionalism in the North and notice that exporting countries in East and Southeast Asia are debating various coherent regional and subregional responses in fear of rising regionalism and protectionism in the United States and Europe. Finally, the paper briefly touches on the impact of the financial crisis on regional labor markets and social policy. The paper relies on a simple model of three levels of analysis which are closely intertwined and thus cannot be separated except for analytical purposes: one is the corporate level which determines the hierarchy of production; a second level is the public sector level of state and government sponsored institutions; and finally, the informal level of actors and processes in civil society.

## **2. Regionalization or liberalization**

Independently of the breakdown of the planned economies in Eastern Europe and the Soviet Union, two tendencies seem to be pursued simultaneously at the global level. One tendency is a push towards deregulation, liberalization and opening of markets in East Asia and the Third World, and the other is re-regulation and increasing non-trade related protectionism in the triad. The latter is reinforced by trends towards relocation of industries, new technology and financial capital among members of the triad, while it is only in the regional East Asian division of labor a new economics of scale is emerging - or what has been termed the *open regionalism*.<sup>2</sup>

For states located in ASEAN,<sup>3</sup> the fundamental question is how to cope with these changes. The era of American dominance is not only declining in Southeast Asia but seems to be overtaken by a much more complex web of power relations. China's access to WTO further complicates and challenges the East Asian *open regionalism* imperative. The region is probably the most heterogenous in the world both in terms of geography, politics, economics and culture. Not least Southeast Asia reflects this diversity and this raises the question which responses are left for ASEAN? Is it wise to form a new exclusive trade group - *closed regionalism* - or does the so-called 'unity in diversity concept' in ASEAN literally mean that national interests prevail?

Although the financial crisis in 1997 has put a temporary halt on economic growth these seemingly contradictory processes are accompanied in the ASEAN-states by a move towards ASEAN regionalism which is quite different from the conventional regionalism implemented elsewhere. As stated in various studies, ASEAN integration schemes are not about integration among ASEAN members for forming a "closed or discriminatory trading bloc", but rather a way for individual countries to co-operate to increase their international competitiveness and integration with the world. In this sense, the ultimate objective of ASEAN regionalism is to increase the region's competitive edge as

a production base geared toward the global market. On the other hand, ASEAN integration is a means to create an enlarged regional market for attracting inflows of trade and investment. This is because the economies of scale generated by ASEAN integration have enhanced its attractiveness as an investment location or a production platform for global markets as well as the regional market. Economic integration in ASEAN is largely market driven, so ASEAN does not focus solely on the region but is also globally oriented. It is clear that the ASEAN Free Trade Area (AFTA), ASEAN Industrial Cooperation Scheme (AICO), the regional Framework Agreement on Services Facilitation (AFAS), and the ASEAN Investment Area (AIA) and other initiatives are driven primarily by the recognition by ASEAN of the necessity to continue to sharpen its international competitiveness. Therefore, ASEAN states are integrating among themselves in order to integrate with the world, and AFTA, AIA, as well as AFAS could be a means for achieving this.

Thus, it is not surprising that the rationale of ASEAN integration is not primarily to pursue a rising share of intra-regional trade in its total trade, but rather to develop the free flow of goods and mobilization of investment intra-ASEAN. In consequence, it facilitates a further degree of market integration so that ASEAN would be increasingly attractive as an area of trade and investment in the global economy. This is the meaning of the *open regionalism* approach adopted by ASEAN.<sup>4</sup>

However, the crisis also showed that both APEC and ASEAN were “incapable of making immediate short-term palliative responses to the regional financial crises”, and this “posed serious questions about their efficacy as emergent models of regional organization in Asia and the Pacific.”<sup>5</sup> Perceptions of ASEAN as ineffective and a “sunset organization” have consistently been noted and after the crisis urgent calls to restore international confidence in the grouping rang out loud. Its institutional and geopolitical weaknesses, and its current politico-social upheavals, have added real urgency for ASEAN to look for a new impetus, which could perhaps be found in a bigger East Asian grouping.<sup>6</sup> In order to provide an adequate answer to these questions it is necessary to situate the region in a historical and global perspective.

There are two fundamental responses to the recent dramatic changes in the international and regional political economy. Taking into consideration that the global governance system is in a systemic legitimacy crisis the first response is located at the national level, and the second at the regional level.

The contemporary world economy is increasingly being transformed for the coming era in which butter will be far more vital than guns, and competition among major capitalist powers intensifies. As the hegemonic role of the US declines further, the Japanese and the EU are expected to grow relative to the American position. Hence it creates a US-Europe-Japan tripolarity resulting in strong economic rivalry among these three major powers but leaving the majority in the South with decreasing opportunities and room of manoeuvre. Furthermore, China's ascendancy to becoming a global player is urging Southeast Asia to rethink its future.

The global economy is now characterized by a *transnational* division of labor, where power is centered on the US, EU, Japan and to a lesser degree China. Industrial production is restructured and internationalized key sectors such as the oil giants, car companies, and electrical goods are expanding production facilities to cheaper locations. Most recently there has been a shift of manufacturing to Southeast Asia and China. But at the same time as capital internationalize core nations come together by forming administrative, political and security coalitions on a regional basis.

Western European integration is a major factor contributing to the rise of regionalism. One of the reasons for the formation of the EU-bloc is to respond to the rise of Japan and the United States, and to serve as a catalytic force in the competition for world markets. At present the EU's reliance on trade with nonmembers is rather limited.

In the 1990s, exchanges between countries belonging to the EU and NAFTA already accounted for almost 60 percent of world trade. Compared with the fact that Japan, the largest economy in Asia, is unlikely to become the major absorber of the region's manufactured exports in the near future, the scope of any intra-regional integration scheme will likely be quite limited in East and Southeast Asia. Although some scholars are rather optimistic with regard to the scope for new regional arrangements especially after the crisis and China's accession to the WTO others are rather pessimistic due to a number of factors which I will stress in the following.

The threat of growing protectionism in the form of regional blocs has been most evident recently by the creation of NAFTA. The trend in the US Trade Acts of 1984 and 1988 is giving increased discrimination power to the administration to regulate imports by putting emphasis on reciprocity and bilateralism. In 1988, the US Congress withdrew the benefits of the Generalized System of Preferences (GSP) from Singapore, Hong Kong, Taiwan, and South Korea. In 1989, it went further, labelling Japan as an 'unfair trader' under the provisions of the Omnibus Trade and Competitiveness Act (better known as Super 301),<sup>7</sup> and

reportedly only left South Korea and Taiwan off the list because of some market-opening measures on their part. In 1993 Thailand and Malaysia were threatened with similar measures unless they improved the situation on nontrade issues such as workers- and human rights. As such, protectionism is becoming even more systematic and nontariff barriers (NTBs) increasingly used to restrict imports. And the recent crisis has seen an additional number of demands aimed at restructuring the economies away from statism towards a more liberalized Anglo-Saxon type of economy. The September 11 terrorist attack has added pressures on the Bush administration to impose protective tariffs. This has been done on steel and the US' export of hormone-treated beef and genetically modified organisms (GMOs) shows an emerging resurgent trade unilateralism. The reality is that the US and the EU will never abandon the massive subsidization of their rich farming interests, the effective protection of their textile and garment sectors, and their monopolistic control of technology via the TRIPs agreement. On the contrary all tendencies point in the opposite direction.

The related question in the East and Southeast Asian context is where Japan fits into the emerging international and regional economy? Is Japan going to be the new locomotive, the new major absorbing market in a world economy with surplus capacity?

ASEAN's dependence on Japan extends to investment and overseas development assistance (ODA) as well as trade. Achieving economic influence can be applied to explain the motivation behind the Japanese government's strategic use of foreign economic policy as well as certain aspects of the bilateral relationship. ASEAN's policymakers are receptive to Japanese economic assistance in the form of aid, grants and technological cooperation of any kind - a situation which creates an unequal "partnership".

Japan has been reluctant to lead any Asian response to EU and NAFTA. Although some factors like the AMF proposal might suggest otherwise there seems little reason to expect a closing off of East Asia. The region is anything but uniform. Its countries have no common heritage, are split between various modes of political regimes at different stages of growth, and are adverse to leadership by any single country. Nevertheless, there seems to be not only a regional but a global expectation to Japan that she assumes a role commensurate with her economic strength.

Furthermore both China and Japan are important centers of what Katzenstein terms the "new Asian regionalism, but also counterweights against the influence of the United States."<sup>8</sup> Seen in this light expectations are high, but the conditions for regional governance weak and not likely to emerge in the near future except if the United States takes a leading position as it has done in APEC.



### **3. ASEAN, AFTA, EAEC and AMF: Regional defensive responses**

The answer to the changes in the global economy on the part the member-states of ASEAN has been the adoption of various defensive measures, such as the Malaysian Prime Minister Mahathir's proposal of creating the East Asia Economic Group (EAEG).<sup>9</sup> This grouping changed its name in the 1990s to the East Asian Economic Caucus (EAEC) under Japanese leadership and American exclusion. However, Mahathir's proposal clearly resembles a 1988 response from the Japanese Ministry of Foreign Affairs which came up with the idea of an East Asia Economic Ring (EAER).<sup>10</sup> Many of the details of EAEC are not yet available. But public statements by its proponents emphasize the following:

- 1) EAEC is intended to be a consultative forum. Memberstates can use EAEC to discuss, on an ongoing basis trade and economic issues of mutual interest.
- 2) EAEC is not intended to be a trade bloc but consistent with GATT and WTO rules and contribute to the success of the Uruguay Round in its attempt to maintain and enhance the global trading system.
- 3) EAEC will not create trade barriers to imports from third countries but explore all areas of potentially productive cooperation across the whole spectrum of economic interrelationships.

US opposition to EAEC prevents the implementation of an organizational structure or even a schedule of meetings. Therefore the result remains unclear. Although the crisis in 1997 did result in proposals for 'monetary regionalism' and a renewed collective East Asian identity which might result in what Breslin and Higgott terms "potential roles for nascent regional organisations" it remains to be seen whether new substantial initiatives will be taken.

This is also the case with the former Thai Prime Minister Anand's 1992-suggestion to create AFTA for manufactured goods within a 15 years period through the progressive lowering of tariffs blocking the movement of goods within the group. There are several motives behind forming AFTA;<sup>11</sup> all of them essentially involve the perception in ASEAN countries that world trade today is being managed in various forms, especially by the regional blocs in Europe and North America. Under the AFTA-scheme ASEAN decided to reduce tariffs on manufactured products to 5 percent or less. The implementation of this proposal is not without complications.

Sree Kumar notes that a major obstacle as seen in former similar initiatives is the fact that ASEAN countries, "tend to compete for similar investments and

access to the same markets."<sup>12</sup> While the value of intra-ASEAN trade increased to \$25.3 billion in 1990 from \$12.9 billion in 1980, it has barely kept up with the rise in ASEAN trade with the rest of the world, which totalled \$268 billion in 1990. "As a proportion of the group's total trade, intra-ASEAN commerce stood around 20 percent in 1990, little changed from a decade earlier."<sup>13</sup> Nearly 16,000 items were included in an ASEAN preferential trading arrangement (PTA) signed in 1977. Most of these were put there because of their low demand. For instance, snow plows, of no use in the tropics, are on the list. However impressive, it has not increased preferential trade in ASEAN which remained at 1 percent of total intra-ASEAN trade.<sup>14</sup> All empirical studies on the likely impact of the PTA on intra-regional trade confirm that the effects of the tariff cuts have been minimal,<sup>15</sup> and the situation has not changed in 2000 where apart from Malaysia no states in ASEAN export more than 20 percent within the region.

The 2008 deadline for the creation of AFTA has later on been moved forward to 2003. Over the course of the next several years, the program of tariff reductions was broadened and accelerated, and a host of "AFTA Plus" activities were initiated, including efforts to eliminate non-tariff barriers and quantitative restrictions, and harmonize customs nomenclature, valuation, and procedures, and develop common product certification standards. In addition, ASEAN later signed framework agreements for the intra-regional liberalization of trade in services, and for regional Intellectual Property Rights cooperation. An industrial complementation scheme designed to encourage intra-regional investment was approved, and discussions were held on creating a free investment area within the region. During the financial crisis of 1997-98, ASEAN reaffirmed its commitment to AFTA, and as part of a series of "bold measures," agreed that the original six AFTA signatories would accelerate many planned tariff cuts by one year, to 2002 from 2003. Although the lowering of tariffs to minimal levels was accompanied by a massive expansion of intra-regional trade from US\$44.2 billion in 1993 to US\$97.8 billion in 2000 the success of AFTA is still very much in its infancy due to important exceptions and resistance in governments and bureaucracies - a problem which is illustrated by the fact that "If Singapore is excluded, intra-regional trade country ratios are below 10 per cent for all the countries, and the intensity is only 1.5. Even including it, the shares are 20-30 per cent, well below those of Mercosur. Asean is not of major trading importance to any of its members, although on average more important than SADC."<sup>16</sup>

Although ASEAN has generated an extensive interactive network of governmental and private agencies, regional economic cooperation is still slow, especially in the crucial areas of trade liberalization and industrial production. For instance, in spite of the ASEAN Preferential Trading Arrangement and

Complementation Scheme, intra-ASEAN exports increased marginally from 16.7 percent in 1980 to 17.4 percent in 1989, which largely reflected Singapore-Malaysia and Singapore-Indonesia trade. In fact, the share of exports from the Philippines and Thailand to other ASEAN countries declined. Furthermore, there have been attempts of politically initiated microregionalisms in the form of growth triangles, but so far these initiatives have been conducted on a bilateral and only had a limited effect.

But more important than formal agreement, nontariff barriers in the ASEAN countries pose an even higher impediment to intra-trade than tariff levels. Customs rules and practices are not uniform and are difficult to interpret in many ASEAN countries.

The general problem inherent in the various responses of the ASEAN member-states, individually as well as a regional group, has been the tendency to shy away from more substantive areas such as harmonization of trade and investment policies or macro-economic coordination.<sup>17</sup> Regional cooperation has generally focused on a relatively shallow level of cooperation in trade, industrial development, environment management and exchange of information. Furthermore, the ASEAN framework is not governed by any legal or legislative agreement, in the form of a treaty. On the contrary, the arrangement is loose and flexible, and is generally based on a simple memorandum of understanding. Finally, nationalism continues to prevail over regional interests. For instance, when the United States offered ASEAN preferential trade benefits, similar to those extended to Mexico and the Caribbean, the ASEAN countries insisted that Washington sign six separate treaties with them. The US offer was subsequently shelved.<sup>18</sup> Recently the US and the EU signed a very favorable bilateral trade agreement with Singapore which together with Chile, Jordan and Israel now enjoy free access to the American and European markets - not exactly a move endorsed by other ASEAN members.

These examples show the vulnerability of the lack of binding agreements, but at the same time it is the export oriented development strategy which is at stake.

The factors threatening export-led FDI dependent growth menace are of supply and demand. On the demand side, the menace to the absorption of exports from Japan, the NICs and Would-be-NICs by the US, has been pointed out as a principal reason. Another and even far more important cause is overcapacity on a world scale. The economic rationale and impetus for absorption of exports from the NICs and Would-be-NICs is contrary to political sentiments. The newly emerging countries on the basis of an export-led growth strategy have now to compete with the industrialized countries in supplying high quality and competitive manufactures. This problem also seems to be one of the major

impediments to closer regional economic cooperation in ASEAN, because the economies are not competitive, but rather rely on a complementary export-oriented strategy with the same productlines and sectors. Competition occurs on the level of attracting FDI and foreign capital in general, but as shown above also in signing exclusive trade agreements with the the developed countries.

The member countries who make up ASEAN have a combined GDP of nearly 700 billion US\$, but large disparities among them. With a population of 498 million people and a US\$ 1.164 per capita income they make up one of the largest regional markets in the world, but pales when compared to Japan's 123.5 million people with a GNP of US\$2.990 billion or US\$24.213 per capita. The move to AFTA will have a limited effect on world trade and will not dismantle GATT's and WTO's multilateralism. In 1991, the share of ASEAN in world trade was only 4.6 percent and this has increased only slightly and has relied to a very significant degree on FDI. Moreover, ASEAN countries will not overly emphasize intra-ASEAN trade since the role of exchanges with nonmembers is of greater importance. Therefore, it is appropriate to define AFTA and EAEC as extra-national possibilities. National development objectives still play the determining role when a choice is available. The conditions in East Asia (referring to Japan, the NICs, and ASEAN) do not satisfy a number of basic prerequisites for regional integration or economic regionalism.<sup>19</sup> Indeed ASEAN seems to favor closer cooperation rather than economic integration,<sup>20</sup> and in a new regionalism perspective it involves a dramatic shift away from South-South regional cooperation to North- South regionalisms and multiple competing regionalisms.<sup>21</sup>

This was illustrated in the aftermath of the financial crisis where the IMF not only led but in effect monopolized the international rescue effort, with conspicuously little regional coordination, and with the World Bank and the Asian Development Bank in distinctly subordinate roles. Japan's August 1997 proposal for a \$100 billion Asia Monetary Fund, with pledges mostly from Japan, China, Hong Kong, Taiwan, and Singapore, was shot down by the US Treasury, not wanting a competitor to the IMF outside of its control. The Asia Fund could probably have deterred the currency runs and stopped the crisis from becoming even a fraction of what it has become, because speculating against a currency backed by \$100 billion is altogether less attractive than speculating against one backed by only \$25 billion. The Treasury's failure to support it was a major mistake as regards dealing with the crisis, if not in terms of US foreign policy objectives in Asia.<sup>22</sup>

As a defense against Washington's poor international assistance record, American officials claim that the United States bears a disproportionate burden of the bill for international institutions and that more of the burden should be

shifted to other wealthy nations like Germany and Japan. They also point out that the United States does at least as much if not more by keeping its markets open and by providing military defense. All this is true. But the irony of the US position is that over the past decade or two Washington has blocked various proposals that would have reallocated the costs among the major Western nations and put these institutions on a sounder financial footing. It did so because the measures threatened America's preeminent position-and in the case of the IMF and the World Bank, its de facto veto, since increasing Japan's and Germany's allocations would have increased their weighted vote.

Washington has preferred cash-strapped international agencies it could easily control to stronger ones in which the US was less dominant. This American focus on dominance was most evident at the beginning of the Asian financial crisis, when Washington reflexively vetoed the Japanese AMF proposal, fearing that it would pose a threat to America's financial dominance and to the centrality of the IMF, which it controls. In short, it preferred to risk further financial meltdown than to sanction a potential rival to America's dominant position.<sup>23</sup>

If the conditions and the political will for successful regional integration are lacking in the East Asian context it leaves only the state as the main actor and catalyst at the politico-economic level. The politically insulated nature and bounded autonomy of the state in ASEAN resembles in appearance that of the NICs but not the character itself. In spite of important differences between the member-states in terms of influence from the business sector on economic policy-making there are important similarities as well when compared with the NICs and this helps to explain the reluctance towards a more formal integration scheme in ASEAN.

#### **4. Catch-up or be left behind**

The argument that the features explaining high economic growth of the ASEAN countries can be attributed mainly to the role of the domestic state, and not ASEAN per se, or its subsequent free trade area AFTA is not a new one. It might even be claimed that seen from Southeast Asia the most appropriate answer to the regionalization of the world economy is strengthening of state capacities and capabilities. This is illustrated by the extremely high rates of investment in domestic physical capital. In this respect, the countries of the region have been following the path trodden earlier by Japan. The absence of regional formal institutional mechanisms for extensive policy coordination, forced even senior officials, such as the Prime Minister of Singapore Goh Chok Tong, to declare in 1999 that "ASEAN as a group is being seen as helpless and worse, disunited ...in our summits in 1997 and 1998, we failed to convince the outside world that ASEAN was tackling the crisis with determination and decisiveness to regain its high [regional] growth". Rodolfo Severino, the

Secretary General of ASEAN, went as far as to state that “the frustration and bewilderment over the sudden reversal of fortunes have led many, including some in Southeast Asia itself, to raise questions about ASEAN’s effectiveness and utility and about the validity of the very idea of ASEAN”. The shared regional identity, based on the theme of increasing economic development, was being questioned by even those who had championed it in the past.<sup>24</sup>

The important role of state policies is further seen from the priority given to growth-related objectives, such as increasing productivity and competitiveness and promotion of industrialization policy since the 1960s. The state in ASEAN, also, plays an active role in capital accumulation through state enterprises and government participation in joint public-private ventures. However, the global recession in the mid-1980s, somehow changed the heavy reliance on state capital in favor of the new catch-words: liberalization, privatization and deregulation. But still, the role of state capital plays a significant role albeit a changing one to more interventionist policies and state-led developmentalism.

Therefore, it seems appropriate to consider why ASEAN, until the financial crisis in July 1997, have had such striking growth rates over the last decade compared to most other parts of the world, except the NICs, as well as an impressive level of real growth in capital formation. Five main factors are among the most important growth-promoting elements in the economic expansion of ASEAN countries:

- 1) Embedded autonomy of state policies and efforts to promote industrialization.
- 2) Increase of FDI, particularly from the US, Japan and the NICs.
- 3) Increase of exports.
- 4) Decline in competitiveness of the NICs.
- 5) Increased regional political stability.

Before the onset of the crisis in 1997, East and Southeast Asian leaders (including Japan) deliberately encouraged economic growth by emphasizing international competition through a calculated export-led strategy and avoidance of social welfare programs.

By putting ‘politics in command’ the CDS in East Asia played an important role in the capitalist growth process. The East Asian late industrialization development model was based on the implementation of a specific understanding of political economy, whereby the state assumed a function in the guidance of the economy without disregarding the importance of the market. Government policy-making was thus organically tied to the production factors - land, labor and capital - in actively creating comparative advantages. Before the

crisis neo-Listian theory enabled a clear explanation and provided the definition of the East Asian CDS which had “a role different from that of the Keynesian welfare state in the already advanced countries. The Keynesian welfare state serves to restrain market rationality by measures to protect groups vulnerable to the consequences of market rationality. By contrast the developmentalist state restrains market rationality in order to pursue a policy of industrialization *per se*.”<sup>25</sup> But the export-oriented strategy came to an impasse. During the Cold War the White House offered free access to the US market to handful non-communist economies in the region. Today competition has become harsh among Asian economies, and not least the Chinese shift to a labor-intensive EOI strategy has left the region with a drive downwards on prices and profits, and in any case, there is overproduction in almost any productive sector in the real economy relative to the decline of outlets on the European and US markets. Furthermore, the CDS with its *embedded autonomy* became its own gravedigger. The very success of the developmental state in structuring the accumulation of industrial capital changed the nature of relations between private capital and the state. As private capital became less dependent on the resources provided by the state, the latter’s dominance diminished. The *zaibatzus* and *chaebols* became the new masters and coupled with resurgent distributional demands the elite networks and bureaucratic structures the state became transformed into a new type of regulatory institution.<sup>26</sup>

The real issue is what Ankie Hoogvelt convincingly argues that there is a historical trend towards forms of production organization in which capital no longer needs to pay for the reproduction of labor power. At the same time, participation in the global marketplace means that the domestic market is no longer needed to serve the self-expansion of capital. Jobless growth is what the present phase of capitalism is all about. “It is this process of globalization rather than any claimed imbalance in the national accounts between public and private sector growth (the fiscal deficit), nor any demographic imbalance (the greying population) that is the main reason for the perceived need to shed and restructure the welfare state which has become the dominant political project in all advanced countries since the 1980s.”<sup>27</sup> Coupled with the fact that there is a “race to the bottom” in terms of job flight as mentioned at a recent conference for East Asian union leaders hosted by the AFL-CIO: “As soon as we start to organize a union, the company threatens to move to Vietnam,” and it was an unanimous view that international regulations are needed to keep companies from moving to low-wage economies<sup>28</sup> - the result is that East and Southeast Asia appear to be approaching what can be termed classical problems of Europe and the United States.

When the scope of analysis is extended to include the external factors another complimentary picture emerge which neither shows a successful emulation nor

implementation of a strategy of 'guided economy' or 'capitalist developmental state'.<sup>29</sup> It has been pointed out by several scholars that, the most important constraint on enhancing the developmental capacities and the autonomy of the state in ASEAN is to be found in the international context. One example has centered on growing protectionism in the core states with the increasing tendency towards formation of exclusive trade blocs. In addition there are a number of differences between the NICs and Would-be-NICs which limit the strength of Southeast Asian state responses to changes in the international economy. The most important difference is the problem that contrary to the experience of the Newly Industrialized Countries ASEAN's dependency on foreign investment, technology, and financial capital has been extremely high.<sup>30</sup> Furthermore, there is a consistent pressure from the multilateral institutions, the World Bank, IMF and WTO for a premature opening of the domestic markets. Indeed the increased economic integration has been more oriented towards the creation of a common external trade policy than with intra-regional economic liberalization. Some analysts have argued that most of the member states continue their commitment to the regional organization because they perceived their international influence would be greater as long as they were ASEAN members than if they were not. As mentioned above even AFTA, launched in 1992 was not implemented until the late 1990s, accelerated by the events of the Asian financial crisis. At the same time protected domestic industries were permitted to continue and flourish under a myriad of sectoral agreements.

Relatedly, it was the Yen appreciation that expanded the growth area from Japan to the NICs and the ASEAN countries. Japan's FDI in Southeast Asia is aimed at constructing a world base for production and export, taking advantage of the low production costs and government incentives. Following the Plaza-Agreement a new upsurge in FDI from the NICs took place. This trend reflects a decline in competitiveness of the NICs due to high appreciations of national currencies. Finally, Vietnam's withdrawal from Cambodia and prospects for peace in Indochina combined with the peaceful transitions in the Philippines from the Marcos regime to Aquino increased regional stability. This situation changed dramatically in the aftermath of the financial crisis leaving the region in turmoil and especially affecting regional and local stability and human security in Indonesia and the Philippines and to a lesser degree Thailand.

## **5. Some perspectives**

As this paper has tended to show, the regional response in Southeast Asia to changes in the world order and the international division of labor has had limited effects. EAEC and AFTA are defensive acts as the focus of individual states remains on national development. There are other options both at the regional and national level; such as the Asia Pacific Economic Cooperation (APEC) and the increasing emphasis on state supported regional growth triangles. But again



these examples are either through cooperation among states or require a strong role of the state in providing infrastructure, tax incentives etc. They are extra-national and do not figure among the highest priorities on the development-agenda in these states. Another related problem is very basic, because governments cannot emphasize three or more competing regional alternatives at the same time. AFTA (ASEAN), EAEC and APEC are in contradiction and remains in a competitive situation leaving policy elites to prioritize the national alternative.

Although ASEAN regionalism is based on the theoretical assumption of the equality of states, in practice, the larger ASEAN states have come to exert greater influence over the regional organization. The discussion of equality of states becomes rhetoric when regional interest is subsumed under individual national interest which dictates that the ultimate goals of the state be pursued by various means. The prime example, of course, is that Indonesia has been unanimously accepted as the leader of ASEAN in regional affairs. This is testified by a number of ASEAN's decisions, which included the location of the ASEAN secretariat in Jakarta, the appointment of an Indonesian as the first secretary general of ASEAN, the holding of the first ASEAN summit in Bali and, until his ouster, the recognition of President Suharto as the elder statesman in Southeast Asia.<sup>31</sup>

As regional trade blocs in the North enhance liberal trade within their own boundaries they do so, obviously, at the expense of nonmember nations and threaten to divert preexisting patterns of trade, i.e. they capture market shares that formerly went to, say, Southeast Asia. It remains to be seen if the new WTO rounds will increase multilateralism and free trade or protectionism in the North will prevail.<sup>32</sup>

It is essential to understand the strengths and weaknesses of the previous development strategies. It is also important to understand the challenges of globalization to these economies and politics. One noteworthy factor appears to be that the crisis in many cases was not caused by over-involvement of Asian governments in economic development. Rather, the crisis has been most severe where Asian governments were retreating from leading roles in the economy, while their capabilities for indirectly managing national economic problems remained insufficient. Thus, evaluation of the economic performances of democratizing governments in East Asia might be of interest.

Partly caused by the economic difficulties, Asian democracies have become generally unstable; Philippine and Indonesian Presidents were forced to resign; South Korean and Taiwanese Presidents face strong domestic challenges; and Japanese Prime Minister Mori resigned amid economic and political turmoil.

The most important issue of ASEAN regionalization is to generate a common political will of ASEAN countries to agree to the implementation of deeper integration in the region. Over three decades, ASEAN countries have preferred to have their commitment based on "consensus" and have provided loose framework-agreements with flexible practice rather than a concrete legally binding regime. This is the main obstacle to the upgrading of ASEAN regional integration, as evidenced by the modest success in economic co-operation of ASEAN in the past.

## **6. Regionalism and the impact of the Financial Crisis**

The final part of this paper focuses on the following four problems:

- general overview of the key issues in the region;
- identifying the most important actors in formal and informal regional governance regimes;
- relating the implications of one and two above (key actors and key issues) to possibilities and limitations to more accountable, legitimate and transparent governance;
- connections with other cluster areas i.e. finance and foreign investment + human development and security.

Regarding question one and two the key actors and key issues in the region are related to the following:

a) Bilateral and to a lesser degree multilateral bargaining, negotiations and agreements both in terms of labor issues and migration, and more important in terms of investment and trade form the top priority of East and Southeast Asia. These processes are performed by the state/government elites in an unequal reciprocal fashion. There are instances of growing influence by the business sectors on almost all policy/governance issues of some substance although the military also performs a role not only in security, but also in business affairs. This is the case in the Philippines, Indonesia, Thailand, Vietnam, Laos and Myanmar/Cambodia and to a much lesser degree in China, Korea and Taiwan. Trade unions are weak all over the region except in Korea and to a lesser degree in the Philippines. In tandem with the crisis organized labor has gained strength in Thailand and even more in Indonesia, but contrary to big business labor is not well organized at the regional level. Finally, the new social movements (civil society?) have exploded both in terms of numbers at the

national levels, but also in terms of becoming a force to be recognized with at the regional level.

b) North-South regionalism exemplified by the emphasis on ASEM, and attempts to “multiple regionalism(s)” i.e. ASEAN, AFTA, EAEC, APEC showing that the region in a positive version is “experimenting” with all forms of institutional arrangements in order to stay competitive and attractive to the new hegemon “international footloose financial and productive capital”. In a negative sense the players in the region have been scrambling to explore appropriate responses to better facilitate and accommodate to the new laws of international mobile capital. As such the main emphasis in ASEAN and membership of AFTA is to reduce risks of foreign investment by providing multi-country credibility to regulations concerning trade and capital flows. However, in the early 1990s, ASEAN received almost 67% of all FDI flowing into Asia. Now, 75% of the capital going into developing East Asia is destined for China and Hong Kong, compared to only 10% going to ASEAN. The result of all this has been multiple regionalism and some instances of micro-regionalism. One example which has gone virtually unnoticed by the rest of the world is that East Asian countries have also been collaborating to create other economic arrangements. As a result, for the first time in history, the world might in theory enter a three-block configuration. With very little fanfare, Asia created the “ASEAN + 3” (Japan, China, and Korea) in 1997. The group has held its own summits for four years in a row, has set up a “vision group” to guide its work, and holds regular meetings of its finance ministers. Many Asians believe that Western banks and companies deliberately caused the Asian crisis of 1997 for quick profits. Thus, it is not surprising to note that ASEAN + 3 is moving more rapidly on financial issues than on trade. For example, the group has announced several new initiatives to help its members deal with future Asian crises. Such measures include a regionwide system of currency swaps, the aforementioned Asian Monetary Fund, and an Asian currency unit modeled on the euro.

c) The role of FDIs in the ASEAN economies in particular coincided with the main objective of the first phase of industrialization then which was to create employment for a fast expanding population. This phase therefore saw the expansion of “unskilled labour-intensive” manufacturing while the second phase represents a clear effort to shift to a more ‘skill-intensive’ manufacturing. As a result, since the 1970s, manufacturing became the main engine of growth in these countries dominated by textiles and electronics. Competition for foreign capital is therefore unavoidable under these circumstances. Measures to attract foreign investment include ensuring political stability, the supply of a docile and cheap labor force, infrastructural support services, a series of incentives and tax holidays and of late the promise to supply a highly skilled workforce. Countries

that were politically stable, where wages were low, with a good infra-structural support and a well controlled workforce then became magnets for FDIs. It is no surprise therefore that within the developing world, the fast growing NIEs (South Korea, Taiwan, Hong Kong and Singapore) has been most successful in attracting foreign capital.<sup>33</sup> Other Asian countries including the ASEAN-4 (Malaysia, Thailand, Indonesia and the Philippines) in the strife towards achieving NIE status took similar measures. Until the crisis started East and Southeast Asia have had two regulatory mechanisms in terms of labor markets and migration. The first has been the acceptance of labor import and the other of sending workers abroad. They allowed foreign workers into their metropolitan areas, while on the other hand, they were exporting labor from rural communities. According to one interpretation the so-called miracle has been built on the shoulders of exploited and marginalized migrant labor and both official and unofficial statistics reveal an astonishing number of migrants who worked as construction workers, maids, prostitutes, and in 3D jobs (dirty, difficult, dangerous) etc. in the metropolises of the region (in 1980 approx. one million a number which swelled to 6.5 million in 1997). This all changed with the crisis which left the region in turmoil and a state of depression. Mass migration entered the agenda of policymakers as an attractive way to cope with the impact of the crisis and started a search for overseas labor markets to cope with the crisis. However, this initiative was met with decisive moves to control migration. Furthermore receiving countries in the region immediately announced repatriation of foreign workers, increased surveillance at the borders seemingly implied that migrants were at least partly responsible for the crisis. For receiving countries renationalization of labor markets and employment was a matter of putting nationals first over foreigners. For labor exporting countries, the “internationalization” of their workforce (via overseas employment) was one of several strategies to deal with unemployment.

d) In terms of intersubjective meanings and identities the elite in the region has with few exceptions endorsed developmental paternalism as the norm and value which should provide political-cultural exceptionalism, excuse and explanation for the fact that repression and outlawing of alternative discourses have been the actual policy no matter the type of regime or governance be it democratic or authoritarian. This has had an enormous impact on gender and the crisis has enhanced the male dominance of the region in almost all matters concerned with policy-making/governance issues. Furthermore in many countries there is a latent anti-Chinese sentiment which in the case of Indonesia exploded into looting, violence, death and a mass exodus of ethnic Chinese.

Regarding the implications of the above on possibilities of formal and informal governance and especially linking the issues to trade/investment and welfare/security are plenty and complex and raise a number of issues including

economic stability, social cohesion, poverty alleviation, food security and unemployment. Exploring new approaches to deal with these issues also means considering the structural role migrant workers play in the regional labor market, and the consequences for such admission.

The Cold War rethoric should be reversed and political parties with a social democratic and/or left wing bias allowed - not only in order to give working classes, migrants and other marginalized groups and strata a real alternative in the form of political representation, but also to give access to a growing and increasingly militant NGO community a choice and an articulated political voice which might impact national and subsequently regional governance.

This also implies a radical rupture in the elite's approach to the role of labor unions, which might enable the negotiation of a new social contract - i.e. as the old statist corporatism is disappearing it remains to be seen what will replace it.

Whatever issue related to labor, migration and social policy is examined, regional cooperation surfaces as necessary. However as mentioned above the political climate for such action is still lacking. There is a dialogue between various small and rather insignificant regional NGO's (Asian Solidarity Dialogue and the Asia Pacific People's Assembly), some global civil society movements such as the International Organization for Migration, and multilateral bodies like ILO and ADB, but their initiatives are met with old style paternalism and aversion from regional bodies like APEC and ASEAN.

In conclusion East and Southeast Asian countries differ considerably in their approaches to governance, not only in terms of cultural identities, but also in ideologies, political institutions and levels of economic development, the policy elites share an aversion against organized labor and regard migrants as an extra-resource - a reserve-army without basic human rights as defined by the UN. Furthermore, the crisis has raised fundamental questions about political stability, declining middle classes, the role of the state and not least the military (the Philippines recently experienced a military coup against Estrada, and the military remains an important player in Indonesia), a more articulate and outspoken civil society, and basically prospects for democratization all over the region. Popular support may not be essential or ascertainable in Asean, but ethnic and religious fundamentalism is replacing pluralism and might change prospects for interregional attempts of governance in the near future (Indonesia and Malaysia are prime examples).

Other governance questions such as accountability and transparency are highly affected by the above mentioned problems. What is most probable is an indigenous solution as anti-American sentiments are growing in the region - as

such the IMF and the World Bank is blamed for putting gasoline on the fire - a situation which does not imply prospects for the adoption of American-style governance and economic systems.

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<sup>1</sup> See the discussions in Timothy Shaw, Morten Boas and Marianne Marchand (eds.): (1999) Special Issue on 'New Regionalisms in the New Millennium', Third World Quarterly 20 (5), October, pp. 897-1070.

<sup>2</sup> Some Japanese scholars use this Janus-faced expression signifying an underlying dilemma. *Open regionalism* implies that certain measures are to be reinforced in a specified geographic area. Hence, a regionalism without discrimination - which 'open regionalism' implies - is a self-contradictory concept.

<sup>3</sup> ASEAN comprise the four big resource-rich member-states of the Association of Southeast Asian Nations, Thailand, Malaysia, Indonesia and the Philippines. Furthermore, the small oil-emirate Brunei and the entrepôt city-state Singapore are members of ASEAN. In 1995 Vietnam became a member and Laos and Burma joined in 1997 while Cambodia obtained membership two years later. This means that ASEAN for the first time in history has united the whole of Southeast Asia in one regional organization.

<sup>4</sup> Although, as stated above, *open regionalism* is a contradiction in itself some scholars tend to define it as a "...means that regional economic intercourse is to be promoted if and only if it is consistent with GATT/WTO and not to the detriment of other economies." See <http://members.tripod.com/asialaw/articles/lawanasean23.html>.

<sup>5</sup> This was further illustrated by the unsuccessful attempt to establish an Asian alternative to the IMF. See Breslin and Higgott, *Studying Regions: Learning from the Old, Constructing the New, New Political Economy*, Vol. 5, No. 3, 2000, p. 336.

<sup>6</sup> <http://www.asiaweek.com/asiaweek/magazine/2000/0915/viewpoint.html>.

<sup>7</sup> Section 301 was originally introduced in the 1984 Trade Act and revised in 1988 to a more potent and efficient new 'super 301' - in effect a twentieth-century variant of gunboat trade diplomacy.

<sup>8</sup> Peter Katzenstein, *Regionalism and Asia*, *New Political Economy*, Vol. 5, No. 3, 2000, pp. 359-61.

<sup>9</sup> EAEG was launched in a speech delivered by Prime Minister Mahathir bin Mohamed in Bali, Indonesia on 4 March 1991.

<sup>10</sup> Li Shi Chun, *Japan's Role in the International Division of Labour*, Paper presented at the ASEAN-China Hong Kong Forum 1989 Hua Hin, Thailand. In Susumu Awanohara (ed.), *Japan's Economic Role in the Asian Pacific Region. Policy Implementation and Responses*, Centre for Asian and Pacific Studies, Hong Kong, 1990, pp.24-25.

<sup>11</sup> As stated in its proposal, motives to form AFTA beside that in the area of trade involve the goals to 1) attract foreign investment through increased operations of TNCs, 2) to enhance the bargaining power of ASEAN as an entity.

<sup>12</sup> Michael Richardson, 'Can ASEAN Meet The EC Challenge?' *International Herald Tribune*, January 21, 1992.

<sup>13</sup> Richardson, *ibid*.

<sup>14</sup> Tan Kong Yam, Toh Mun Heng, and Linda Low, *ASEAN and Pacific Economic Cooperation*, *ASEAN Economic Bulletin*, Vol.8, No.3, 1992, p.311.

<sup>15</sup> Yam et.al., *ASEAN and Pacific*, *ibid*. pp. 311.

<sup>16</sup> Sheila Page, *Survey of Regions*, <http://www.unisa.ac.za/dept/press/politeia/162/spage98.html>, pp.31-32.

<sup>17</sup> Seeiji Naya (Coo.), *ASEAN Economic Cooperation for the 1990s*, A report prepared for the ASEAN Standing Committee, Philippine Institute for Development Studies and ASEAN

Secretariat, Manila, 1992, p.19. Refer in the same volume to Dr. Chng Meng Kng, Deputy Secretary General at the ASEAN Secretariat, who explains why the ASEAN Secretariat's role within ASEAN is marginalized to the point of redundancy: 1) desire of member countries for wider participation of its officials in ASEAN activities, whatever the tangible benefits of such participation. 2) there is a lingering fear that a strong ASEAN Secretariat may usurp national control. 3) there is also concern that an expanded Secretariat may not generate benefits commensurate with the financial cost involved. Chng Meng Kng, Institutional Structure for Enhanced Economic Cooperation. In Seeiji Naya, ASEAN Economic, *ibid*, pp.97.

<sup>18</sup> Bangkok Post, Cooperation in a Pipe-Dream, 11, November, 1991.

<sup>19</sup> See the arguments by the President of the Bank of Tokyo, Tasuku Takagaki, Dynamic Growth as an Antidote for Trading Blocs, *Economic Eye*, Vol.13, No.2 1992, pp.5-6.

<sup>20</sup> Narongchai Akrasanee, ASEAN Economic Cooperation, in Linda G. Martin (ed.), *The ASEAN Success Story, Social, Economic and Political Dimensions*, East West Center, University of Hawaii, Honolulu, 1987, p.112.

<sup>21</sup> P. Bowles, ASEAN, AFTA and the "New Regionalism", *Pacific Affairs*, xxx 1997, pp. 226-231.

<sup>22</sup> See Robert Wade and Frank Veneroso, *The Gathering World Slump and the Battle Over Capital Controls*, *New Left Review*, September/October 1998.

<sup>23</sup> See the discussion in Sherle R. Schwenninger *World Order Lost*, *American Foreign Policy in the Post-Cold War World*, <http://www.worldpolicy.org/projects/state/schwen.html>.

<sup>24</sup> Cited from Zakaria Haji Ahmad and Baladas Ghoshal. 1999. "The Political Future of ASEAN after the Asian Crisis," *International Affairs*, Vol. 75, No.4, pp. 759-778.

<sup>25</sup> Hoogvelt, Ankie (1997) *Globalization and the Postcolonial World*, Macmillan, London, p. 206.

<sup>26</sup> See Evans, Peter (1992/1995) *The State as a Problem and Solution: Predation, Embedded Autonomy, and Structural Change*, in Stephan Haggard and Robert R. Kaufman (Eds.), *The Politics of Economic Adjustment. International Constraints, Distributive Conflicts, and the State*, Princeton New Jersey: Princeton University Press.

<sup>27</sup> Hoogvelt, Ankie (1997) *Globalization and the Postcolonial World*, Macmillan, London, p.113.

<sup>28</sup> Los Angeles Times, February 22, 1998.

<sup>29</sup> For applications in the East Asian context, see Gordon White and Robert Wade, *Developmental States in East Asia*, Macmillan, London, 1988.

<sup>30</sup> See also Shoichi Yamashita, *Economic Development of the ASEAN Countries and the Role of Japanese Direct Investment*, in Shoichi Yamashita (ed.), *Transfer of Japanese Technology and Management to the ASEAN Countries*. University of Tokyo Press, 1989, p.5.

<sup>31</sup> For similar observations, see Lau Teik Soon, *ASEAN Diplomacy: National Interest and Regionalism*, *Journal of Asian and African Studies* Vol.XXV, nos. 1-2, 1990, pp.116-117.

<sup>32</sup> According to the WTO, nearly 110 cases of regional integration agreements have been notified to GATT under Article XXIV during the period of 1947-1994. In a sub-periodical dissemination, the first half of the 1970s and the 1990s recorded an especially high number of such agreements, representing 19% and 29%, respectively. The characteristics of regional integration agreements prevalent in the postwar period may be summarized as follows: Firstly, the regional integration endeavors have been accompanied by multinational efforts to liberalize world trade under the auspices of GATT. Secondly, postwar regional integration has been strongly concentrated in the western part of Europe. Thirdly, most of the integration agreements concluded among developing countries have failed to realize the envisaged customs union or free trade area in due time. Fourthly, the level of integration achieved

between the parties vastly differs from each other. WTO Secretariat, "Regionalism and the World Trading System", Geneva 1995.

<sup>33</sup> Rajah Rasiah (1998), AFTA and Its Implications on Labour Mobility in ASEAN, paper presented at a conference on Migrant Workers and the Malaysian Economy, Dewan Raja Laut, Quality Hotel City Centre, Kuala Lumpur, 19-20 May 1998.



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